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AGRICULTURE AND ENERGY - EMERGING POLICY THEMES

It is a distinct pleasure for me to speak to this convention of the National Association of Farm Broadcasters.

I have not had occasion to meet with you since Secretary of Agriculture Bob Bergland established the Office of Energy in the Department of Agriculture last spring, and I welcome this chance to highlight for you some energy policy activities of the USDA.

Specifically, I propose to comment on several themes of agricultural energy policy which are emerging as a more pronounced energy policy evolves in the Department of Agriculture.

First, our energy efforts and responsibilities in USDA are directed toward the same goals as the overall energy policy of the Nation.

President Carter and the Department of Energy have enunciated, through the National Energy Plan and otherwise, that the Nation must conserve its fossil fuel sources and, simultaneously, develop alternative, renewable sources for a more enduring energy supply.

Remarks prepared for delivery by Weldon Barton, Director, Office of Energy, U.S. Department of Agriculture, before the National Association of Farm Broadcasters, Kansas City, Missouri, November 11, 1978.

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Secretary of Agriculture Bob Bergland has committed the USDA to contributing its full share to the realization of these goals. To fulfill that commitment, Secretary Bergland established the USDA Office of Energy as the focal point for the Department's efforts on energy programs and policies.

Second, we need to assure a dependable supply of natural gas, gasoline, diesel and other fuels to agriculture which is necessary to maintain full productivity of the food and fiber system.

It would make little sense to deprive fuels to the agricultural sector, if in doing so we created a bottleneck in the efficient allocation of resources to agriculture for maximum productivity.

The $27.3 billion of U.S. agricultural exports in FY 1978 was sufficient to pay for over one-half of the Nation's total petroleum imports during the same year.

Disruptions in fuel supplies to the food and fiber sector result in increased prices to consumers across a broad range of purchases, and contribute substantially to inflationary pressures in the general economy.

In the Natural Gas Policy Act of 1978 which President Carter signed last Thursday, Congress recognized this intimate connection between the price and timely availability of fuel to agriculture, and the strength of the Nation's economy.

The Natural Gas Policy Act provides a special priority protection against curtailment of natural gas for essential agricultural uses, as necessary for full food and fiber production.

The Act specifies a broad set of essential agricultural uses to be protected by the curtailment priority, including uses of natural gas for agricultural production, natural fiber production, natural fiber processing, food processing, food quality maintenance, irrigation pumping, crop drying, and for the production of fertilizer, agricultural chemicals, and animal feed.

The new law charges the Secretary of Agriculture with the responsibility to determine the specific agricultural uses to be covered by the priority, and to certify those uses, and the amounts of natural gas required, to the Secretary of Energy and the Federal Energy Regulatory Commission within 120 days of November 9, when the President's signature made the Act effective.

The Secretary of Agriculture's certified list of agricultural use requirements then goes to the Federal Energy Regulatory Commission, which is charged with enforcement of the agricultural priority through the natural gas pipelines and local gas distributors within the States.

This legislation continues the premise that natural gas is a premium fuel which should not generally be used where other fuels are equally available, by authorizing the FERC, in consultation with the Secretary of Agriculture, in effect to waive USDA's priority designation in specific instances where alternative fuels are available.

Even in cases where other fuels are available, however, the Congress was sensitive to the need to hold down fuel prices in the agricultural sector. The Report of the House-Senate Conferees on the Natural Gas Policy Act stipulates

that agricultural users shall not be expected to shift unless alternative fuels are both "economically practicable and reasonably available," and in no case should such a shift be made to "high cost alternatives" because of the need "to prevent unnecessary increases in the cost of food in this country."

Secretary Bob Bergland intends to meet his responsibilities under the Natural Gas Policy Act in such a way that will meet Congress' intent to strengthen the access of farmers, farm suppliers and others in the food and fiber sector to their natural gas requirements for full food and fiber production, and he intends to accomplish this in a workable and practical way. Secretary Bergland has instructed the Office of Energy to give major attention to this question over the next few months.

We plan to issue a proposal for carrying out the agricultural priority within a few days, and to go to the public for extensive advice and comment. Hearings will be held in Washington and elsewhere, including a location here in the Midwest. The Secretary intends to finalize his priority certification very early in 1979, in order to stay within the 120-day time frame specified in the Natural Gas Policy Act.

These responsibilities under the Natural Gas Policy Act represent only one element of our overall concern for assured supplies of fuels to farmers and the food and fiber industry. I have emphasized this element, nevertheless, because it represents the most crucial area of fuel supply policy in which the USDA must act over the next few months.

<u>Third, we need to develop renewable energy sources from agricultural and forestry products and residues, in order to contribute to the Nation's energy supplies.</u>

In the Department of Agriculture, we have adopted the following target toward which to aim our efforts over the next decade: the achievement of net energy self sufficiency for agricultural production, and forestry production and processing, by 1990, under conditions that sustain the productivity of the agricultural and forestry sectors.

In other words the total energy produced annually <u>from</u> agricultural and forestry sources would, by 1990, equal the total fuel used annually in the agricultural and forestry sectors--or roughly 5 quads of energy (about 6 percent of the Nation's total energy consumption).

The positing of such a goal will help to focus our efforts in a positive, active way to develop energy from biomass and other potentially renewable sources. At the same time, the 1990 target date indicates that solid gains in this area cannot be achieved overnight, but must be sought over a time period that is realistic and workable.

We must also resist any preoccupation with energy outputs <u>per se</u>, which could blind us to the fact that agricultural and forestry resources will tend to develop according to their highest-value use. It may not make sense, in terms of economics or energy efficiency, to convert marketable corn and wheat into ethanol for use as fuel, if the highest value use of corn and wheat is for human food or animal feed in domestic and export markets.

Similarly, forest and wood "residues" may be more valuable for manufacture of composition board than for fuel. Certainly a top priority for usage as an energy source should be placed on residues such as animal manures, which may have a negative economic value due to their characteristic as an environmental nuisance.

Generally speaking, our energy initiatives must remain flexible and closely integrated with agricultural and forestry policy, in order to avoid undue or premature weighting in favor of energy uses in competition with other uses of the products.

Congress has adhered to this "highest use" concept with respect to the allocation of farmland to energy crops. In the Emergency Agricultural Act of 1978, Congress authorized the Secretary of Agriculture to permit the production of energy crops on set-aside acreage--that is, on acreage diverted from production of the basic commodities. In the Conference Report on the comprehensive package of energy legislation signed by President Carter November 9, the Secretary of Agriculture was encouraged to consider production needs for energy products--in addition to production needs for food, feed, and reserve stocks--before any set-aside acreage is determined.

In each case, Congress in effect determined that energy crops should have a residual claim on land resources, <u>after</u> the land requirements for food and feed production are satisfied.

Furthermore, Congress made this legislation permissive rather than mandatory, so that the Secretary of Agriculture has discretion to encourage the allocation of land to fuel crops only if it appears feasible in light of the multiple factors that are involved.

Congress has given other authorities to the Secretary of Agriculture to encourage the development of fuels from agricultural biomass. Section 1420 of the Food and Agriculture Act of 1977 mandated the Secretary to carry out a pilot project program to convert agricultural commodities and forestry products into industrial hydrocarbons and alcohols.

The Secretary was directed to carry out the Section 1420 program by guaranteeing loans of up to $15 million for each of four pilot projects--provided that proposals for pilot projects would produce more energy than they consume, would be economically viable, and would meet other specifications necessary for a sound and viable operation.

The USDA is progressing with implementation of the Section 1420 program. We developed and published guidelines for proposals based upon public hearings and comment earlier this year, and by the October 16 deadline for submissions we had received 30 project proposals. We are currently evaluating those proposals with the assistance of an expert evaluation panel, with the expectation that the Secretary of Agriculture will make decisions on the proposals before the end of 1978.

Fourth, we have extensive capabilities in USDA agencies to make contributions to the conservation of energy and the development of alternative sources of energy, and we need to use those capabilities to the maximum extent consistent with the agricultural, forestry and rural development responsibilities of the Department.

USDA agencies are taking initiatives on energy policy, a few of which are:

*The Agricultural Stabilization and Conservation Service recently instituted a pilot program of farm facility loans for solar crop drying and other measures designed to reduce fuels required for the drying of commodities.

*The Farmers Home Administration is incorporating insulation and solar energy specifications into FmHA-assisted housing standards, which will have a major impact upon the energy efficiency of homes in rural areas.

*The Forest Service is implementing a more explicit Wood for Energy Program, designed to give additional emphasis to the agency's ongoing activities in this area.

*The Science and Education Administration is developing an expanded and more focused research and extension effort in alcohol fuels and other aspects of the conversion of agricultural biomass materials to energy, which will include the selection and field testing of crop varieties for energy production.

*The Rural Electrification Administration is carrying out a program of weatherization of rural homes as an adjunct to its rural electrification program, and is actively exploring possible means for the generation of electrical power which would utilize biomass materials or other renewal feedstock materials.

Secretary Bergland and the program Assistant Secretaries of USDA have given leadership and support to these and other agency initiatives on energy, and the Office of Energy is providing a Department-wide focus for such efforts.

Obviously, much remains to be done in connection with the policy themes which I have outlined. But I think we are demonstrating real progress in the closely-related areas of energy and agriculture, and we intend to continue an active stance and a positive direction.

Finally, I would like to talk to you about a problem that we in Agriculture have felt more than any other sector of the National economy, and that is inflation. The President has presented to the nation the outlines of his program to combat a problem that has faced every industrial society from time to time throughout history. This program needs all of our awareness and understanding.

In the area of food prices, Agriculture will not be called upon to bear the burden alone, as has often been the case in the past. The American farmer will not be called upon to absorb costs of production over which he has no control, or subsidize the rest of society as they have often done.

Over the last decade, food-price increases, at both the retail and farm levels, have exceeded the rise in other prices by only a slight margin. However, food-price increases have accounted for a fourth of the inflation

in consumer prices thus far this year.

However, farm level prices are a major source of the volatility in retail food prices. These commodity prices are determined by competitive-market supply and demand forces. In these markets, erratic price movements are most often the result of major supply-side shocks such as weather conditions, disease, and biological forces. Since these factors, and the resulting market-price movements, are outside the control of the individual farming units, the monitoring of these prices will focus on overall market trends.

Price stability in our agricultural economy is and will continue to be a cornerstone of federal policy. The monitoring will identify sustained upward price movements in particular commodity markets in excess of the overall inflation rate. Where such changes are not justified by changes in costs, administrative actions will be considered to expand supply and moderate price increases.

At the retail level, individual firms in the processing and distribution sectors will be expected to adhere to the price standards with respect to increases in margins. The Department of Agriculture and the Council on Wage and Price Stability will cooperate in a joint effort to monitor national trends in marketing margins. Efforts will be made to ensure that commodity price decreases at the farm level are accurately and quickly reflected in retail prices and that when farm product prices rise, there are no more than commensurate increases in retail food prices.

The actions announced by the President rely heavily upon the balanced use of overall economic policies, exercise of the administrative powers of government, and voluntary cooperation of the private sector. They will

be implemented immediately. However, more must be done. The President has instructed his advisors to analyze and prepare a set of complementary legislative proposals for submission to the 96th Congress when it convenes in January.

For more than a decade we have seen a series of presidents trying to effectively grapple with the problem of inflation, with limited success. Only time will tell if President Carter will fall into this category or not. But he has issued a challenge to each American and every American business, calling on us all to share in this effort and certainly he is 100 percent correct in doing so because inflation hurts us all and responsibility for bringing it under control is shared by us all.

THANK YOU.

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